MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2020/2021

BBF2644 – BANK MANAGEMENT

(All sections / Groups)

24 OCTOBER 2020
9.00 a.m.- 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 4 Questions only.
2. Attempt **ALL** questions. Distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a. The forecasted cash receipts and payments of Crese Bank Berhad are provided below. All figures are expressed in millions of Ringgit Malaysia.

Deposit withdrawals	RM100	Sales of bank assets	RM22
Deposit inflows	RM75	Dividend payment	RM66
Scheduled loan repayments from customers	RM50	Revenues from the sale of non-deposit services	RM85
Loan requests from customers	RM45	Repayment of borrowings to other banks and financial institutions	RM46
Borrowings from the money market	RM80	Other operating expenses	RM20

(i) Show the net liquidity position for the bank.

(6 marks)

(ii) What should the bank deals with the liquidity surplus?

(3 marks)

(iii) Explain how does the sources and uses of funds approach assist banks in managing their liquidity needs.

(6 marks)

b. Using the following information for Makka Pakka National Bank Berhad, calculate the bank's ratios of total capital-to-risk weighted assets and Tier 1 capital-to-risk-weighted assets. Does the bank meet the capital adequacy requirements?

Assets	2020 RM million	Risk Weightage
Cash and bank balance	9,400	0%
Statutory deposits with Central Banks	9,500	0%
Residential mortgages	600	50%
Deposit balance due from other financial institution	7,745	20%
Loans to enterprises	75,600	100%
Loan to individuals	192,734	100%

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Capital structure	2020 RM million
Subordinated bonds	3,949
Qualifying regulatory reserves	1,340
Share capital	9,417
Treasury shares	(149)
Other reserves	996
Retained profits	24,700
Qualifying non-controlling interest	1,080

(10 marks)

(Total: 25 marks)

QUESTION 2

a. What is a KLIBOR? How is it determined?

(5 marks)

b. Despite careful lending analysis, some loans will turn out to be weak or problem loans. Identify some warnings signs to banks that a troubled loan maybe developing.

(10 marks)

c. How should a loan workout be conducted to solve a troubled loan situation?

(10 marks)

(Total: 25 marks)

QUESTION 3

a. What are fund pool method and asset allocation method? Explain the difference of the two methods in resolving the liquidity-profitability dilemma facing financial firms.

(6 marks)

b. Bankari Bank Berhad holds RM28 million in government bonds whose duration is 10 years. If interest rate suddenly drops from 8% to 7.5%, what is the percentage change should occur in the bond price? How much is the new bond price?

(6 marks)

c. A RM10,000-par value bond is currently selling at RM9,850. The bond pays coupon interest rate of 10% compounded semi-annually and is having 2 years until maturity. Given the required return on similar-risk bonds is currently a 12% compounded semi-annually, what is the duration of the bond?

(8 marks)

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d. Given the following financial data of Tomliboos Bank Berhad, compute the net interest margin.

	RM (in millions)
Interest Income	650
Interest Expense	700
Income from Islamic banking operations	39
Loans, advances and financing	209
Investments	174
Deposits and placement from customers and other financial institutions	508
Money market borrowings	96

(5 marks)

(Total: 25 marks)

QUESTION 4

a. The assets and liabilities held by Igglepiggle Bank Berhad are expected to generate a series of future cash payments and receipts as given below:

Expected cash inflows (RM millions)	Expected cash outflows (RM millions)	Period in which cash inflows are expected
RM150	RM115	Current year
RM112	RM100	Two years from now
RM75	RM90	Three years from now
RM85	RM144	Four years from now

The amount of total assets and total liabilities held by the bank is RM2,050 million and RM1,856 million, respectively. Given the required return used to discount the above cash flows is 7%, calculate the following:

(i) Average asset duration

(5 marks)

(ii) Average liability duration

(5 marks)

(iii) Duration gap

(4 marks)

(iv) Leverage-adjusted duration gap

(4 marks)

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b. Based on the duration gap computed in part (a), calculate the change in the bank's net worth if current interest rate falls from 8% to 6%.

(7 marks)

(Total: 25 marks)

End of Paper